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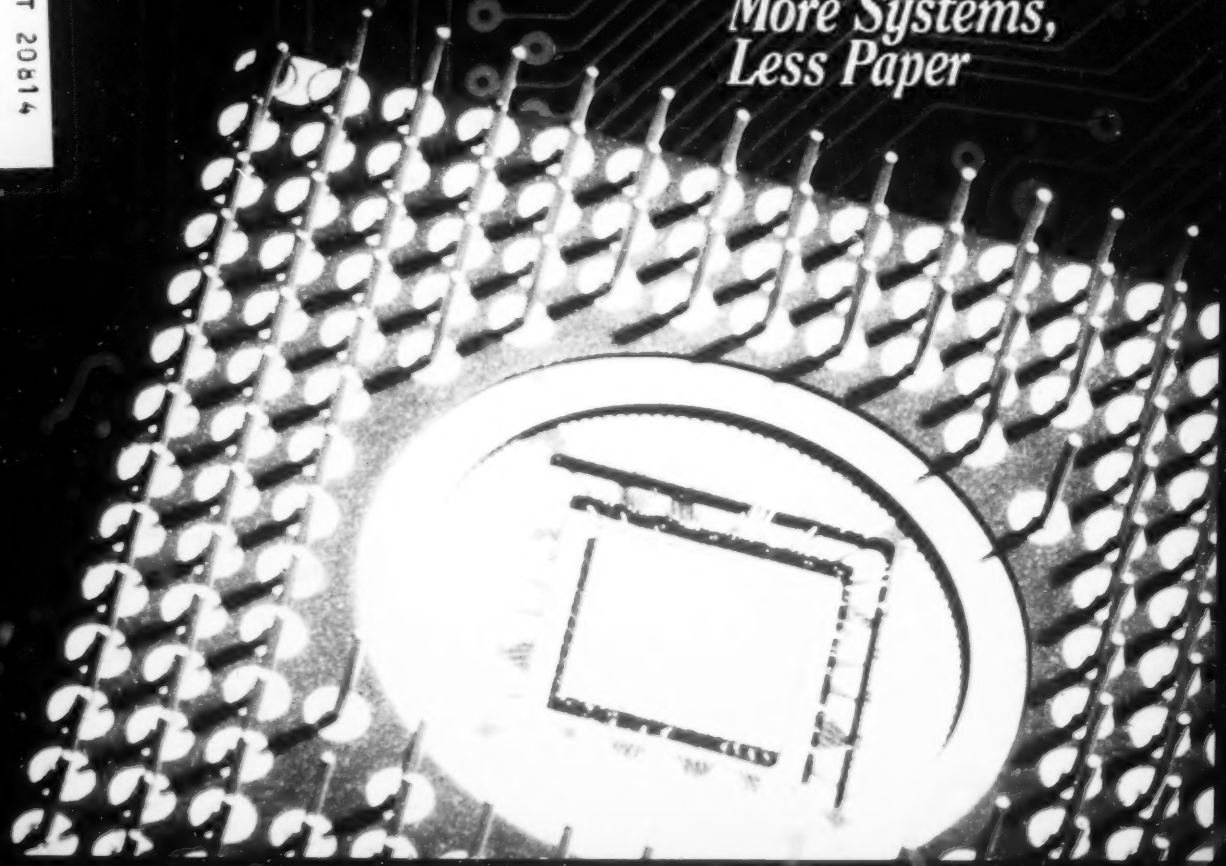
TECHNOLOGY

More Systems, Less Paper



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COVER:
Automation

Computer applications are multiplying in every corner of the mortgage business. If there was ever an industry tailor-made for all types of high technology, mortgage banking is it. Lenders are rapidly adapting to this new environment where technology is making things happen faster than ever before. And information is becoming available that will build better decision making into a permanent cornerstone of the business.

10 The MI Technology Race *The major mortgage insurers are all investing heavily in technology. They've got their sights set on gaining a competitive edge down a path that promises faster service and better risk assessment.* By HOWARD SCHNEIDER

17 The Great Industry Data Bank *At HUD, Freddie Mac and Fannie Mae, technology is being used to make the most of vast amounts of lender data being collected.* By DONA DeZUBE

23 Portraits of Technology *Envisioning the future is never easy—especially in the realm of high-tech mortgage systems. Here, four companies paint the pictures of success they have achieved by strategically implementing technology.* By BRIAN HERSHKOWITZ

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COVER PHOTOGRAPH BY LARRY KEENAN ASSOC./THE IMAGE BANK

PORTFOLIO

Paper Is Down, But Not Out

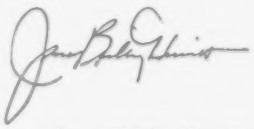
Automation has become a pervasive byproduct of man's innovative spirit in the 20th century. Many businesses have leaped at the chance to trade in old tech for high tech. But many businesses are not built around paper to their very core in the fundamental way that mortgage banking is.

The paper of mortgage banking is so treasured— for legal security reasons— that a whole profession has been built up around its care and safekeeping. As the name clearly suggests, document custodians are charged with the important role of seeing, for example, that all the proper paper exists to ensure that mortgages in a Ginnie Mae pool are packaged into securities that legally can carry a government guaranty for investors.

Yet today, even the world of the document custodian—which up until now was a universe stacked with paper—is coming face-to-face with automation. What this will mean for the small and large players who perform the role of document custodians is one of the issues explored this month. Automation, as it moves through every industry, creates winners and losers and initially carries a high price tag. The question is whether small custodial shops will be able to foot the bill for systems, or whether a move to automation will favor those with deep pockets—consolidating this niche business into the hands of a relative few. Another question is whether the government will be a passive or active player in moving custodians toward automation.

An allied industry with the deep pockets and the staff to embrace the goodies that modern technology can offer is the mortgage insurance industry. In this issue we explore what the MIs are doing with artificial intelligence systems and optical disk technology and a few other assorted applications of technology.

Finally, by talking to HUD's, Fannie Mae's and Freddie Mac's technology people, we hoped to get a reading on just how much automation had taken hold in the shops of small and large originators and servicers around the country. As the article reflects, there is still a lot of paper out there—no threat to Federal Express is emerging yet from this industry. But then again, change is rarely delivered overnight.



Janet Reilley Hewitt
Editor in Chief

COMING IN APRIL

The secondary market's success story is the focus for April. The massive growth in this uniquely American investment product and its impressive returns are the focus of expert commentary. We also show you the progress of the MBS as it takes on new markets in Europe and Australia.

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VITAL STATISTICS

INTEREST RATES & YIELDS
1- TO 4-FAMILY MORTGAGES

1990	FHA OPINION SURVEY	FHFB			FNMA		FHLMC	
	FHA New Homes[1]	CONVENTIONAL[2] FRM	ARM	Median Cost of Funds SAIF Institutions	1-Yr. ARM	FRM Conv.	ARMs	FRMs
OCT	10.24%	10.37%	9.03%	9.67%	7.84%	10.08%	8.20%	10.17%
NOV	10.02	10.39	9.07	9.69	7.60	9.87	8.08	9.90
DEC	9.74	10.20	8.94	9.58	7.34	9.56	7.93	9.67
1991								
JAN	**NA**	**NA**	**NA**	**NA**	**7.10**	**9.51**	**7.74**	**9.64**

SELECTED SECURITIES

1990	FEDERAL FUNDS RATE	PRIME COMMERCIAL PAPER (3-Month)	U.S. GOVERNMENT 6-Month	1-Year	3-Year	10-Year	A-Rated Utility
OCT	8.11%	7.98%	7.16%	7.55%	8.07%	8.72%	10.23%
NOV	7.81	7.91	7.03	7.31	7.74	8.39	10.07
DEC	7.31	7.80	6.70	7.05	7.47	8.08	9.95
1991							
JAN	**6.91**	**7.10**	**6.28**	**6.64**	**7.38**	**8.09**	**9.83**

CURRENT SECONDARY MARKET YIELDS

1990	GNMA[3]	FNMA[3]	FHLMC[3]
OCT	9.84%	9.80%	9.69%
NOV	9.63	9.66	9.54
DEC	9.22	9.27	9.16
1991			
JAN	**9.17**	**9.24**	**9.12**

SPREADS
(Basis Points)

1990	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
OCT	112	108	97
NOV	124	127	115
DEC	114	119	108
1991			
JAN	**108**	**115**	**103**

SECONDARY MARKET ACTIVITY
(Dollars in Millions)

1990	FNMA Portfolio Commitments*	FNMA Portfolio Purchases	FNMA Mortgage-Backed Securities Outstanding	FNMA Mortgage-Backed Securities Issued	FHLMC Commitments To Sell	FHLMC Commitments To Buy	FHLMC Mortgages Purchased	FHLMC PCs Issued	GNMA Pass-Through Securities Applications	GNMA Pass-Through Securities Issued
SEP	$2,073	$2,123	$281,806	$8,953	$4,749	$6,643	$5,798	$5,707	$7,094	$5,420
OCT	1,849	2,077	287,674	8,078	7,260	10,972	6,118	5,734	5,748	5,347
NOV	2,426	2,078	293,710	8,199	9,948	10,164	6,981	6,314	5,008	5,890
DEC	**2,104**	**2,410**	**299,833**	**8,010**	**7,230**	**12,938**	**10,638**	**9,918**	**4,170**	**4,627**
1990 TOTAL	23,689	23,959	---	96,695	77,412	102,400	75,518	73,815	64,709	64,369
1989 TOTAL	27,409	22,518	---	69,764	85,408	86,263	78,589	73,518	62,000	57,300
12 MONTH AVG. 1990	1,974	1,997	---	8,058	6,451	8,533	6,293	6,152	5,392	5,364
1989	2,284	1,877	---	5,814	7,117	7,189	6,549	6,126	5,167	4,775
1988	1,953	1,926	---	4,573	3,499	5,889	3,673	3,315	5,001	4,607

*Does not include standby commitments issued, but includes standby commitments converted.

HOUSING ACTIVITY

RESIDENTIAL STRUCTURES

(Units in Thousands, Seasonally Adjusted Annual Rates)

	BY TYPE OF UNIT						BY REGION							
	HOUSING STARTS			BUILDING PERMITS			HOUSING STARTS				BUILDING PERMITS			
1990	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Northeast	Midwest	South	West	Northeast	Midwest	South	West
SEP	1,106	893	213	992	786	206	104	239	445	318	104	221	386	281
OCT	1,026	861	165	920	751	169	144	229	393	260	113	200	354	253
NOV	1,127	812	315	906	713	193	142	234	482	269	105	195	367	239
DEC	**987**	**774**	**213**	**846**	**689**	**157**	**112**	**231**	**409**	**235**	**100**	**178**	**337**	**231**
1990 TOTAL	1,193	932	261	1,104	851	253	131	253	480	329	124	235	424	321
1989 TOTAL	1,376	1,059	318	1,338	999	340	179	266	536	396	179	252	505	402
12 MONTH AVG. (SAAR)														
1990	1,209	942	267	1,112	854	258	136	261	482	331	127	246	422	317
1989	1,387	1,066	321	1,343	1,016	327	183	269	536	397	183	267	506	397
1988	1,491	1,145	346	1,454	1,071	383	241	273	574	404	231	258	542	415

HOME SALES

(Units in Thousands)

	EXISTING HOMES			NEW HOMES		
1990	Sold (SAAR)	Available for Sale	Months Supply At Current Sales Rate	Sold (SAAR)	Available for Sale	Months Supply At Current Sales Rate
SEP	3,170	2,590	9.8	505	338	8.4
OCT	3,050	2,640	10.4	475	334	8.6
NOV	3,150	2,580	9.8	496	327	8.0
DEC	**3,220**	**2,070**	**7.7**	**463**	**319**	**8.4**
1990 TOTAL	3,293	---	---	536	---	---
1989 TOTAL	3,440	---	---	650	---	---
12 MONTH AVG. (SAAR)						
1990	3,304	---	---	534	---	---
1989	3,446	---	---	646	---	---
1988	3,594	---	---	677	---	---

VALUE OF NEW PRIVATE CONSTRUCTION PUT IN PLACE

(Units in Billions of 1987 Dollars, Seasonally Adjusted Annual Rates)

1990	Total[5]	1–Unit	2+ Units	Nonresidential
SEP	$286.1	$95.1	$16.7	$91.9
OCT	280.9	93.3	17.0	89.1
NOV	273.6	90.6	16.0	86.6
DEC	**271.5**	**88.1**	**16.2**	**87.6**
1990 TOTAL	294.5	100.7	17.4	92.8
1989 TOTAL	308.5	108.3	20.7	96.0
12 MONTH AVG. (SAAR)				
1990	296.0	101.6	17.4	93.8
1989	309.1	108.7	20.7	96.1
1988	314.1	112.1	21.4	93.4

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED
By Type of Institution and By Type of Unit
(Dollars in Millions)

	1-4 UNITS					5+ UNITS					NONRESIDENTIAL				
	Total[2]	Mortgage Bankers	Savings & Loans[7]	Commercial Banks	Life Companies	Total[2]	Mortgage Bankers	Savings & Loans[7]	Commercial Banks	Life Companies	Total[2]	Mortgage Bankers	Savings & Loans[7]	Commercial Banks	Life Companies
1990															
MAY	$37,255	$9,420	$13,183	$14,231	$27	$2,453	$297	$1,061	$874	$39	$15,412	$110	$640	$10,905	$2,657
JUN	38,428	9,714	13,209	15,063	29	2,778	209	989	682	182	16,411	105	666	12,303	3,097
JUL	35,519	9,627	12,015	13,461	30	2,082	165	871	696	209	16,221	98	475	12,525	2,984
AUG	**36,651**	**11,236**	**12,937**	**12,032**	**34**	**2,556**	**80**	**950**	**1,243**	**92**	**18,964**	**107**	**547**	**14,783**	**2,994**
1989															
TOTAL	352,026	65,606	157,676	123,193	1,443	31,145	4,443	13,469	7,669	2,786	149,950	1,688	14,476	106,424	25,675
1988															
TOTAL	383,566	85,307	188,871	101,863	3,331	38,158	4,526	20,551	6,920	3,732	181,604	1,032	24,368	124,106	29,986
8 MONTH AVG.															
1990	35,707	9,489	12,200	13,588	56	2,680	375	948	891	195	17,106	122	666	12,935	3,027
1989	28,320	5,469	12,828	9,610	83	2,385	281	1,150	549	185	11,709	129	1,339	8,299	1,819
1988	32,044	7,307	15,459	8,702	232	2,995	367	1,634	554	280	15,250	73	2,053	10,922	1,994

MORTGAGE INSURANCE
(Units in Thousands, Dollars in Millions)

	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
	TOTAL	FHA[8]	VA	PRIVATE	TOTAL		FHA		VA		PRIVATE	
					Units	Amount	Units	Amount	Units	Amount	Units	Amount
1990												
AUG	154	89	18	47	126	$10,205	70	$4,764	19	$1,572	37	$3,869
SEP	119	68	14	37	109	8,827	64	4,319	14	1,180	31	3,328
OCT	133	74	20	39	120	9,756	66	4,476	19	1,612	35	3,668
NOV	**112**	**62**	**14**	**36**	**107**	**8,554**	**63**	**4,225**	**14**	**1,207**	**30**	**3,122**
1989 TOTAL	1,687	990	194	503	1,274	95,956	726	45,893	183	12,946	365	37,117
1988 TOTAL	1,755	949	211	595	1,334	98,012	699	42,577	211	15,771	424	39,664
11 MONTH AVG.												
1990	140	83	17	40	114	9,011	66	4,380	17	1,350	31	3,281
1989	142	84	16	42	106	7,998	61	3,850	15	1,068	30	3,080
1988	149	81	18	50	112	7,881	58	3,552	18	1,309	36	3,335

NA—Not Available; SAAR—Seasonally Adjusted Annual Rate

[1]Secondary market gross yields. Numbers shown for each month are the average of yields from the first day of the month shown and the first day of the subsequent month.

[2]Effective rate on loans closed.

[3]Securities for 0- to 30-day delivery.

[5]In addition to the categories of private construction shown, the total also includes these categories: residential improvements, railroads, electric light and power, gas, telephone and telegraph, petroleum pipelines, and farm nonresidential.

[6]In addition to the categories shown, the total also includes private pension funds, private MBS conduits, state and local retirement funds, federal credit agencies, mortgage pools, and state and local investment agencies.

[7]Savings & Loans and Mutual Savings Banks.

[8]FHA applications received includes the Direct Endorsement Program.